

## **CURRENT INVESTIGATIONS**

### **Tax Abusers on the General Services Administration General Schedule**

There are tens of thousands of contractors who contract through the General Services Administration (“GSA”) to provide goods and/or services to federal agencies. GSA manages the Federal Supply Service and the Federal Technology Service which screen and approve contractors who provide hundreds of billions of dollars in goods and/or services to federal agencies without contracting directly with the agency. These contractors are placed on GSA’s General Schedule and federal agencies may select a contractor from the schedule.

The Subcommittee will determine (1) what types of background checks the General Services Administration perform to determine whether contractors have abused the tax system or are involved in other abusive or potentially criminal activities; (2) whether there are indications that contractors included on the Federal Supply Schedule or the Federal Technology Schedule are abusing the tax system or involved in other abusive or potentially criminal activities; and (3) whether these contractors are working on Hurricane Katrina relief.

### **Gasoline and Crude Oil Pricing**

In 2001, the Subcommittee began an investigation into recent gasoline and crude oil price spikes. In April 2002, the Subcommittee issued a staff report and held hearings detailing how U.S. retail gasoline prices are set and identifying factors responsible for price spikes, including oil industry mergers, refinery closings, tight gasoline supplies, and regional pipeline limitations, all of which gave some refiners sufficient market power to reduce gasoline supplies and increase gasoline prices. In March 2003, the Subcommittee Minority staff issued a report examining the crude oil markets, which affect the price of not only gasoline, but also key commodities like home heating oil, jet fuel, and diesel fuel. The report found that the Department of Energy’s 2002 program to fill the Strategic Petroleum Reserve increased crude oil prices and hurt U.S. consumers and taxpayers, without actually increasing overall U.S. oil supplies. It also found that crude oil prices are affected by trading not only on regulated futures exchanges, but also on unregulated over-the-counter markets, and recommends several reforms, including increasing disclosure and market oversight of over-the-counter energy trading to detect and deter price manipulation. This investigation is ongoing.

### **Nuclear Terrorism**

The Subcommittee is engaged in an on-going investigation into Department of Homeland Security and Department of Energy programs designed to address the threat of nuclear and

radiological terrorism. Since early 2003, the Subcommittee has assessed the progress of these agencies in installing radiation detection equipment at U.S. ports of entry and at key transportation points abroad. Installing such equipment at these locations is a critical component in reducing the Nation's vulnerability to terrorism. In addition, the Subcommittee is monitoring efforts and evaluating federal government programs to secure these materials at their sites both domestically and abroad. The Subcommittee will evaluate the implementation of the Megaports Initiative, Second Line of Defense Program, Global Threat Reduction Initiative, and Materials Protection, Control and Accounting Program. The Subcommittee plans to hold several hearings on this issue throughout 2006 in conjunction with the release of GAO reports requested by the Subcommittee. This investigation will continue to assess the federal government's response to the threat of nuclear terrorism.

### **Container Security Initiative & Customs-Trade Partnership Against Terrorism**

In light of the September 11, 2001, terrorist attacks, concern has increased that terrorists could smuggle weapons of mass destruction (WMD), their components or other potentially lethal devices, in the approximately 8 million ocean going containers that arrive in the United States every year. As part of its overall response to the threat of terrorism, the Department of Homeland Security's Bureau of Customs and Border Protection (CBP) implemented the Container Security Initiative (CSI) to screen high-risk containers overseas, thus employing CBP tools before potentially dangerous cargoes reach our shores. CBP also implemented the Customs Trade Partnership Against Terrorism (C-TPAT), in partnership with industry, to improve the security of the global supply chain.

In August 2003, August 2004, and December 2004, staff from the Permanent Subcommittee on Investigations conducted fact-finding trips to eight CSI ports. These oversight trips proved that CSI could be useful as part of an overall risk management approach to combat terrorism and WMD. However, both CSI and C-TPAT currently lack the scope and scale to reach their full potential, and face a number of compelling challenges that further impact their ability to deliver on their promise.

Important homeland security initiatives – such as CSI, which relies extensively on targeting – need sustained attention and congressional oversight. At the Subcommittee's request, GAO is conducting a review of the requirements for and challenges involved in transitioning CSI and C-TPAT from promising risk management concepts to effective and sustainable programs. These GAO reports complemented the Subcommittee Investigation and raised several issues of concern as well as recommendations for improvement. These results were highlighted at a hearing entitled *The Container Security Initiative and The Customs-Trade Partnership Against Terrorism: Securing the Global Supply Chain or Trojan Horse?* on May 26, 2005.

The Subcommittee plans an additional hearing on these issues in 2006 and will continue to assess the status and implementation of these programs.

### **Imported Pharmaceuticals**

Over the last few years several factors, including the advent of Internet pharmacies and the globalization of the pharmaceutical market have led to a dramatic surge in drug imports, especially personal imports, that has overwhelmed the FDA. It is estimated that 20 million packages containing pharmaceutical products are imported into the U.S. every year. This is an increase of over 1,000 percent in only 2 years.

According to the FDA, drugs procured outside the United States regulatory system can be dangerous for numerous reasons. FDA acknowledges that it cannot monitor nor guarantee the safety and effectiveness of drugs purchased outside the closed U.S. distribution system. FDA has warned the public that drugs purchased from foreign countries could be counterfeit, sub-potent or super-potent foreign imitations of FDA approved drugs, expired drugs, contaminated drugs or drugs stored under unsafe conditions.

The Subcommittee held hearings on June 17 and July 22, 2004, to examine the extent to which consumers can purchase pharmaceuticals over the Internet without a medical prescription, the importation of pharmaceuticals into the United States, and whether the pharmaceuticals from foreign sources are counterfeit, expired, unsafe, or illegitimate. In addition, the Subcommittee hearings examined the extent to which U.S. consumers can purchase dangerous and often addictive controlled substances from Internet pharmacy websites and the procedures utilized by the Bureau of Customs and Border Protection, the Drug Enforcement Administration, the United States Postal Service, and the Food and Drug Administration, as well as the private sector to address these issues. This investigation is ongoing.

### **Contaminated Water in Iraq**

The supply of clean and uncontaminated water to U.S. troops and personnel is critical to our mission in Iraq. Recently, former employees of a major contractor in Iraq – KBR – have publicly stated their belief that KBR supplied contaminated water to U.S. troops and personnel at a base in Ar Ramadi. The former employees also presented evidence that the contaminated water at Ar Ramadi may not have been an isolated incident. The Subcommittee has opened an investigation into the provision of water to U.S. troops and personnel in Iraq. The Subcommittee will determine who is responsible for providing potable water to U.S. personnel and troops, what standards are provided for in the contracts to provide potable water, and whether those standards are being met.

### **Tax Havens and Abusive Tax Schemes**

The Subcommittee has held a number of hearings addressing tax haven and tax shelter abuses which are undermining the integrity of the federal tax system, diverting tens of billions of dollars each year from the U.S. Treasury, and shifting the tax burden from high income corporations and individuals onto the middle class. Hearings held in 2001 examined the historic and ongoing lack of cooperation by some offshore tax havens with international tax enforcement efforts and their

resistance to divulging information needed to detect, stop and prosecute U.S. tax evasion. A hearing held in December 2002 and Report issued in January 2003 provided an in-depth examination of an abusive tax shelter used by Enron. Two days of hearings in November 2003, and a bipartisan report issued in 2005, provide an inside look at how some respected accounting firms, banks, investment advisors, and lawyers have become engines pushing the design, sale, and implementation of abusive tax shelters to corporations and individuals across the country. This investigation is ongoing.

### **Federal Contractors' Tax Delinquencies**

On February 12, 2004, the Subcommittee held a hearing on *DOD Contractors Who Cheat on Their Taxes*. The hearing examined the failure to collect unpaid taxes owed by contractors doing business with the Department of Defense's (DOD) and getting paid with taxpayer dollars. The Subcommittee determined that 27,000 DOD contractors owed \$3 billion in unpaid taxes. The taxes were not being collected because DOD was not validating contractors' taxpayer identification numbers and was not referring contractor payments to the Financial Management Service to identify unpaid tax debt.

This hearing also determined that the problem of tax delinquent DOD contractors might not be confined to DOD. Consequently, the Subcommittee decided to expand the coverage of its investigation to include contractors at federal civilian agencies who receive federal contract payments and are tax delinquent.

On June 16, 2005, the Subcommittee held a hearing on *Civilian Contractors Who Cheat on Their Taxes*. The hearing examined the failure to collect \$3.3 billion in unpaid taxes from 33,000 contractors doing business with federal agencies and departments. The hearing examined the failure of the Financial Management Service (FMS) to effectively manage the Federal Payment Levy Program. Specifically, FMS had not ensured that payment documentation was complete and used payment methods that bypassed the levy program. In 2004, FMS should have collected \$50 million from civilian contractors but only collected \$16 million.

The Subcommittee plans to continue its investigation of federal contractors who do not pay their taxes by examining problems at IRS that inhibit tax debt collections, federal agencies that do not use FMS to pay their contractors, and the federal contractor screening process.

### **United Nations "Oil-for-Food" Program**

The Subcommittee has an ongoing investigation into the United Nations "Oil-for-Food" Program ("OFF Program") to examine allegations of improper conduct, and whether such improper conduct negatively affected the interests of the United States. In particular, the Subcommittee is examining the extent to which any misconduct took place within the United States and the extent to which any misconduct involved United States citizens, residents, or businesses. The Subcommittee's first hearing on the OFF Program was held on November 15, 2004, and laid the foundation for future hearings on how the OFF Program was exploited by Saddam Hussein. A

second hearing, held on February 15, 2005, examined the operations of the independent inspection agents retained by the United Nations and their role within the OFF Program. The operations and oversight of the OFF Program by the U.N. Office of the Iraq Program and the U.N. Office of Internal Oversight Services were also examined.

The Subcommittee held its third hearing on the Oil-for-Food Program on May 17, 2005. In connection with the hearing, the Subcommittee released three bipartisan staff reports presenting evidence gathered by the Subcommittee establishing that the Hussein regime awarded valuable allocations of oil to its political allies who were in favor of lifting U.N. sanctions, including Russian politician Vladimir Zhirinovsky, the Russian Presidential Council, British Member of Parliament George Galloway, and French senator Charles Pasqua. A Minority staff report released in connection with the hearing presented evidence relating to illegal surcharges paid to the Hussein regime by Bayoil (USA), Inc., and explored additional evidence regarding open oil sales in 2003 related to shipments loaded at the Khor al-Amaya port which took place with U.S. government knowledge.

The Subcommittee held its fourth hearing related to the Oil for Food Program on October 31, 2005. At that hearing, the Subcommittee examined the urgent need to reform the U.N., and the most effective manner to achieve those reforms. Paul Volcker, the Chairman of the U.N.'s Independent Inquiry Committee, briefed the Subcommittee on the IIC's evidentiary findings and its recommendations on how the U.N. should be reformed. Former Speaker of the U.S. House of Representatives Newt Gingrich, who served as the Co-Chair of the Task Force on the United Nations at the United States Institute of Peace, testified before the Subcommittee. Speaker Gingrich discussed the Task Force's recommendations for U.N. reform, which were presented in the report *American Interest and U.N. Reform*. The investigation is ongoing.

### **Credit Card Fees, Penalties, and Charges**

The Subcommittee has opened an investigation into proliferating credit card fees, penalties, interest rates, and other charges which can make it difficult, if not impossible, for some consumer to repay their debts. The Subcommittee will examine the types and nature of these charges, the justifications for imposing them, related disclosure issues, and their impact on consumers.

### **U.S. Participation in Foreign Corruption**

The Subcommittee has opened an investigation into U.S. corporate practices which may contribute, wittingly or unwittingly, to corruption in foreign countries. The Subcommittee first examined this issue in connection with activities undertaken by U.S. oil companies in Equatorial Guinea (E.G.), discovering instances in which one or more U.S. oil companies had entered into a joint business venture with the E.G. President; made large rental payments to senior E.G. officials or their relatives for E.G. housing or land; or paid for the college tuition of E.G. students, many of whom were children of senior E.G. officials. These activities involved millions of dollars and may have contributed to rampant foreign corruption in Equatorial Guinea. This investigation will examine similar issues in other countries.

### **Border Security**

The Subcommittee continues its examination of the difficulty in maximizing border security while minimizing the impact on commerce and tourism. A 2001 hearing examined U.S. policy on releasing illegal aliens into the United States before holding deportation hearings. On May 12, 2003, the Subcommittee held a hearing in Minnesota, *Border Security: How Are State and Local Officials Coping With the New Levels of Threat?*, in order to hear from state and local officials about how they are dealing with potential threats across our land, lake, and air routes. The Subcommittee is continuing this investigation and plans to examine several recently implemented border security initiatives, air cargo inspection policies, and revisit the findings of the 2001 hearing. Hearings on these issues will occur throughout 2006.

### **Credit Practices Targeting Low-Income Individuals**

The Subcommittee opened an investigation into tax related financial products including refund anticipation loans (RALs). The Subcommittee examined the degree to which these products, and the businesses that offer them, engage in abusive or misleading marketing practices. It looked at the impact of tax related loans on the Earned Income Tax Credit. On April 15, 2005, the Subcommittee held a field hearing in St. Paul, Minnesota entitled, *Tax Related Financial Products Can Be Costly*. As a result, one major tax preparer agreed to rescind a surcharge on refund anticipation loans granted to Earned Income Tax Credit recipients. Further, the Subcommittee learned that tax preparers can receive financial incentives for selling bank products, such as refund anticipation loans, and that there are very limited controls to ensure that tax preparers do not sell costly and unnecessary products to their customers for their own financial gain. The Subcommittee plans to closely monitor this situation.

### **Synthetic Fuel Tax Credit**

The Subcommittee is continuing its investigation tax credits claimed under Section 29 of the Internal Revenue Code for the sale of coal-based synthetic fuels. This investigation is examining the utilization of these tax credits, the nature of the technologies and fuels created, the use of these fuels, and others aspects of Section 29. The investigation will also address the IRS' administration of Section 29 tax credits.

### **DOD's Premium Class Travel**

In November 2003, the Subcommittee conducted a hearing on the Department of Defense's use of first and business class airline travel. At the hearing, it was determined that DOD had not properly authorized or justified 73 percent of the first and business class travel undertaken in fiscal years 2001 and 2002. DOD spent \$124 million on over 68,000 tickets during these two years. The improper authorization and justification of these tickets resulted in the improper expenditure of over

\$30 million per year on premium airline tickets. The Subcommittee continues to monitor this investigation.

### **Music Piracy**

On September 30, 2003, the Subcommittee held a hearing, *Privacy & Piracy: The Paradox of Illegal File Sharing on Peer-to-Peer Networks and the Impact of Technology on the Entertainment Industry*, to assess the music industry's use of the subpoena process delineated in the Digital Millennium Copyright Act and its initial salvo of copyright infringement lawsuits; what steps the music industry is taking besides litigation to preserve its intellectual property in this digital age; whether those steps unduly infringe upon consumers' privacy rights; how peer-to-peer networks plan to move from a business model predicated upon stealing copyrighted works to a business model based upon trading licensed music, movies and software; how the illegal trading of copyrighted works has hurt the music industry; and how to inform and educate a generation of children and young adults that trading copyrighted music on peer-to-peer networks is illegal. The Subcommittee continues to monitor this investigation.

### **SARS**

The Subcommittee has held three hearings on Severe Acute Respiratory Syndrome (SARS). The Subcommittee's investigation so far has covered the adequacy of the response to the initial outbreak by state and federal agencies, best practices for dealing with future SARS cases, and the preparations for renewed outbreaks in Minnesota. The Subcommittee continues to monitor this issue.

### **Credit Counseling**

On March 24, 2004, the Subcommittee held a hearing entitled *Profiteering In A Non-Profit Industry: Abusive Practices In Credit Counseling*. The industry has undergone both rapid growth and significant transformation during the past five years, including growing participation by firms claiming nonprofit status. A minority of companies has attracted a growing number of complaints about poor service, high fees, and misleading advertising. At the same time, changes in the credit markets, electronic payments systems, and emerging competitors have placed growing pressure on traditional nonprofits performing credit counseling. In addition to studying the most egregious cases of corporate misconduct and whether some companies are abusing their nonprofit status, the Subcommittee is studying whether problems in the broader industry require a federal response. The Subcommittee continues to monitor this investigation.

### **Patient Safety**

The Subcommittee held a hearing in June 2003 on the need to improve patient safety during hospital stays. There have been numerous stories about the incidence of disease and mistakes endangering the welfare of patients. Technological advances and better management procedures promise to reduce the possibility of mistakes and reduce the transmission of disease during hospital stays. The June 2003 hearing focused on some of the past problems as well as the solutions that are either being implemented or in development. This investigation is ongoing.

### **Enron**

In 2002, the Subcommittee conducted an extensive, bipartisan investigation into the collapse of Enron Corporation. The Subcommittee reviewed over 2 million pages of documents, conducted over 100 interviews, held four hearings, and issued two bipartisan reports, one on the role played by the Enron Board of Directors and the other on the role played by U.S. financial institutions. The reports concluded that the Enron Board of Directors and some U.S. financial institutions contributed to Enron's accounting deceptions, corporate abuses, and ultimate collapse. The Subcommittee's investigative work contributed to passage of the Sarbanes-Oxley law which enacted accounting and corporate reforms in July 2002. The Subcommittee is continuing to monitor this matter, including implementation of reforms undertaken by corporations, accounting firms, financial institutions, and regulatory bodies to prevent future Enrons.

### **Money Laundering**

The Subcommittee has held a number of hearings on money laundering vulnerabilities at U.S. financial institutions, including in the areas of private banking, correspondent banking, and federal securities. From 1999 to 2001, the Subcommittee issued two reports, held five days of hearings, and provided the factual foundation for many of the anti-money laundering provisions enacted into law in Title III of the USA Patriot Act of 2001. On July 15, 2004, the Subcommittee held a hearing and released a Minority Staff Report which examined current enforcement of key provisions in the Patriot Act combating money laundering and foreign corruption, using a single case study involving Riggs Bank. The hearing examined Riggs' anti-money laundering program and administration of accounts associated with senior foreign political figures and their family members, such as Augusto Pinochet, former president of Chile, and Teodoro Obiang Nguema, current president of Equatorial Guinea. The hearing also examined the Office of the Comptroller of the Currency's anti-money laundering oversight and enforcement actions. In March 2005, the Subcommittee issued a second staff report which disclosed that Mr. Pinochet had established a secret web of at least 125 U.S. bank and securities accounts at not only Riggs, but also Citigroup, Espirito Santo Bank in Miami, Banco de Chile-United States, and other financial institutions. The investigation is ongoing.